

# Best Practices for Accounts Payable and Receivable Efficiencies

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Among the many benefits promised by enterprise resource planning (ERP) system providers is the ability to offer users solutions that create an efficient and nearly paperless environment, particularly in accounts payable (A/P) and accounts receivable (A/R). Many organizations are dedicating a portion of their scarce IT resources to realize these opportunities.

On the assumption that ERP systems are generally built with efficiencies in mind, there are some identified best practices that corporations in the US have implemented to further improve their A/P and A/R processing streams. These practices can have global applications as well as cross-departmental synergies. Leveraging cross-departmental and IT efforts across the entire organization provides working capital benefits while achieving straight-through processing (STP) and efficiency gains that directly impact the bottom line.

Companies' trading partners can benefit from these best practices as well. As companies establish and operate standard processes such as customer self-invoicing, the benefit of the associated STP and efficiency gains extends beyond the company itself and enters into the supply chain, improving the way companies interact with their trading partners.

## ELECTRONIFICATION OF PAYABLES

Today, most major ERP system providers offer the opportunity for A/P departments to function in a paperless environment, while providing for complete online receipt matching and approval processes. Typically, companies that most efficiently operate in this environment follow these best practices:

■ **Shared services centers** are a means to an end. They can lower costs by minimizing redundant labor and systems expenditures. In addition, they

can also help an organization provide better service by reducing non-value-added processes and optimizing standardized procedures.

■ **Web invoicing** allows your suppliers to log-on to your ERP system via the Internet, and submit an invoice electronically. This practice eliminates the need to receive and translate multiple invoice formats and provides an electronic solution for smaller suppliers who may not have the ability to produce an electronic invoice.

■ **Check services** remain critical for added efficiency although the US is slowly moving toward a "checkless" society.

■ **Check print outsourcing** streamlines the production and distribution of paper checks and remittance advices, while expediting processing of these disbursements. It is also often tied to the best practice of converting payments from checks to ACH via one common payment process. Outsourcing checks provides benefits beyond secure storage of check stock, lower cost printing and elimination of physical signing of each item. This leads to the shifting of costs from a fixed to a variable basis.

■ **Positive pay check fraud prevention** as a component of full account reconciliation has become widely accepted practice. By adding this service, images of exception items will be received on a timely basis, which will

*Thomas Selby, Assistant Treasurer, of The McGraw-Hill Companies, said, "The McGraw-Hill Companies effectively manages its payment issuance practices by leveraging ERP systems and the shared services center that we have established. In addition, we have benefited from converting more payments from checks to ACH, including reducing our exposure to check fraud. Our primary goals are to lower cost and maximize efficiency of payables, and our forward-looking approach allows us to consider implementing new solutions, such as electronic invoicing, to accomplish these objectives."*

help to minimize losses due to unauthorized issues, altered information or errors.

■ **Check imaging**, the process of converting paper checks and invoices into an electronic representation of the original item, can be used to improve standard disbursements. Imaging can complement your ERP system usage by linking images to a purchase order or payment. This will allow quick retrieval of important data when suppliers look for a specific detail or check the status of an invoice, which may be information beyond the ERP's scope.

### AUTOMATING RECEIVABLES

A/R is the second most liquid asset for most companies and active A/R management can reduce working capital requirements. This is an important metric for companies across all industries. The following best practices complement ERP system capabilities:

■ **Automatic remittance reconciliation** uploads data into your A/R system, saving time and reducing the chance of errors as it minimizes what needs to be keyed manually to identify the payment. It imports data entered in a lockbox for checks, along with other feeds from bank electronic payment systems for transmission of full details of incoming payments. The system matches incoming funds with outstanding invoices and closes them out as paid. By automating, electronically linking and posting remittance detail to the payment, near real-time availability of credit lines for customers is achieved and can result in increased sales.

■ **ACH direct debits** or the encouragement of initiating ACH credits by trading partners allows electronic collection of funds from your customers in a standard and predictable fashion. This provides automated reconciliation of the A/R process, and trading partners can benefit from substantially lower transaction costs. ACH payments are less expensive than producing paper

checks as well as other "automated" payment options like credit cards. In addition, customers benefit from the superior ability of ACH systems, particularly those in the US, to carry important remittance details. Customers are also protected from ACH direct debit fraud through the use of ACH debit blocks. This service offered by many banks allows for only certain originators to debit an account and limits the amount of the debit.

■ **Accounts receivable check (ARC) conversion** and **Check 21** enhance the collection process through the benefits of "check electronication."

■ **ARC** involves the electronic conversion of retail lockbox paper checks into electronic ACH debits for the collection of funds. This practice speeds up and standardizes the collection of funds process by eliminating more time-consuming physical exchanges of items and creating the ACH direct debit. With this new electronic collection instrument, which has a pre-determined 1-2 day collection cycle, physical distances between the banks of the payer and receiver no longer are a concern.

■ **Check 21** legislation offers another way to speed up collection for commercial checks as well as non-eligible retail checks. Check 21 provides that paper check deposits can be imaged and electronically, rather than physically, delivered to a bank for collection via a substitute check. This will be replaced by electronic presentment in the future. In addition to the potential benefit of reducing transportation costs, fraudulent checks can be identi-

fied earlier in the collection process. The associated customer information or remittance detail can be captured electronically and provided as an automated feed into your ERP system for auto-reconciliation.

■ **Customer self-invoicing** provides your customer base with the ability to create invoices based on existing data (e.g., purchase order). The advantages of this practice include elimination of invoice creation and processing, reconciliation with purchase orders, prevention of processing errors and reduction in dispute management.

### ACHIEVING RESULTS

Implementing standard best practices can help provide evidence of compliance with Sarbanes-Oxley legislation. Very few companies have perfected every aspect of A/P and A/R processing, but fine-tuning a number of these practices has yielded measurable working capital management improvements for many. The benefits are not just applicable for companies who have invested in an ERP system, but also can be felt by any company that is looking to achieve efficiencies and STP benefits of a nearly paperless environment.

*Kurt Zumwalt, Assistant Treasurer of Amazon.com, explained, "We were looking to find a global provider that could help us collect, make and apply payments more easily with a minimum of manual intervention with our ERP system. The standardized interface for electronically managing payments and collections globally using Deutsche Bank's db-worldPAS service enables us to come closer to realizing this objective."*

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